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ABSTRACT

On December 24, 1994, the Michigan State Legislature passed a comprehensive school finance reform package for the K-12 education system. This document analyzes the school finance reform package and presents a comprehensive review of the issues affected by the proposed reforms. The first section reviews the overall financial components of the package, which include tax reform issues, K-12 revenue, state budget impact, and the impact on the state budget for fiscal year 1993-94. The second section discusses statutory and constitutional changes that would occur under the ballot proposal (to be voted on in March 1994) and statutory proposal. The third section describes major changes to Public Act 336, the School Aid Act of 1993. Section 4 discusses changes in the School Code, which pertain to core curricula, pupil performance standards, endorsed diplomas, hours of pupil instruction, and school improvement plans. The reform package also provides for public school academics and school-security measures. Twelve tables are included. (LMI)

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SENATE FISCAL AGENCY

ISSUE PAPER

SCHOOL FINANCE REFORM

ANALYSIS OF THE BALLOT AND STATUTORY REFORM PROPOSALS

JANUARY 10, 1994

"A Series of Papers Examining Critical Budgetary Issues Facing the Michigan Legislature"

LANSING, MICHIGAN

GARY S. OLSON, DIRECTOR

U.S. DEPARTMENT OF EDUCATION
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INTRODUCTION

On December 24, 1993, the Legislature passed and sent to the Governor a comprehensive proposal to restructure the financing of the K-12 education system within the State. The Governor signed this proposal into law on December 31, 1993.

The passage of the K-12 school finance reform package marks the end of the legislative debate that has been raging since the summer of 1993 when the Legislature approved and the Governor signed into law Public Act 145 of 1993. This law eliminated local property taxes as a source of K-12 school operating funding beginning in the FY 1994-95 school year. Over the past several months the Legislature has debated a series of proposals to restructure K-12 finances. The passage of the proposal on December 24, 1993, marks an end to the legislative portion of the process.

The school finance reform package approved by the Legislature does involve input from the State's voters. On March 15, 1994, a statewide special election will be held to provide voters the choice between income and sales tax as one of the primary funding mechanisms for schools. Irrespective of the outcome of the March 15 special election, a comprehensive school funding plan for the 1994-95 school year is in place.

Reforming the financing of K-12 education and reducing the burden of property taxes have been a goal of legislative members and three different Governors over the past 16 years. The perception of overreliance on local property taxes to fund K-12 education coupled with inequities among the levels of per-pupil funding within school districts have resulted in numerous attempts to reform the system. Prior to the passage of the reform package in December, all previous efforts of reform had failed.

The K-12 school finance reform package includes three major components. The first is a K-12 school funding reform portion. Included in this portion of the package are some tax reform items that do not have a direct impact on the funding of K-12 schools. The second part of the package involves the reform of how State and local K-12 education funds are distributed to the State's K-12 school districts. The final piece is a K-12 education reform component that does not deal directly with K-12 finances.

This Senate Fiscal Agency (SFA) analysis of the school finance reform package presents a comprehensive review of the issues affected by the reform. The first section reviews the overall financial components of the package including: tax reform issues, K-12 revenue, State budget impact, and the impact on the FY 1993-94 State budget. The second section deals specifically with funding reform issues. The third section of the analysis deals with K-12 spending, and the fourth section with education reform issues.

I. SCHOOL FINANCE OVERVIEW

The school finance reform package contains a series of complex changes in laws that will have an impact on the State and local tax structure, State expenditure policy for K-12 school districts, and the level of resources available for expenditure in the State budget for all other programs excluding K-12 schools. This section of the analysis attempts to clarify the overall financial impact of the school finance reform package.

As stated in the introduction, the Legislature essentially approved two different school finance reform proposals. The first hinges on voter approval of a constitutional amendment at the March 15, 1994, special election and the second goes into effect if the constitutional amendment is rejected by the voters. While both the constitutional amendment proposal (ballot proposal) and the alternative proposal (statutory proposal) share some similarities, they represent quite different approaches to the funding of K-12 schools.

Table 1 on page 5 provides a summary of the major revenue components of the ballot and statutory proposals. The proposals utilize a mixture of State and local taxes to fund partially the K-12 education system. In most cases the two proposals would have an impact on similar taxes, but with different results. For example, the ballot proposal would reduce the rate of the State income tax from the current 4.6% to a 4.4% rate, while the statutory proposal would increase the State income tax rate to 6.0%. The similarity between the proposals is that they both would fund the total K-12 education system at similar levels. The difference involves the mix of taxes that fund schools.

The major differences to taxpayers between the ballot and statutory proposals are outlined in Table 2 on page 6. The general question that will face voters on March 15, 1994, is the choice between a two-cent increase in the sales and use taxes, a 0.2% income tax rate reduction, plus a six-mill homestead property tax on the ballot proposal, versus a 1.4% increase in the State income tax rate and a 12-mill homestead property tax under the statutory plan. The difference in actual impact on an individual taxpayer between the two proposals will depend on a combination of income levels, consumption patterns, property values, and other factors.

The funding of K-12 education in the State during fiscal year (FY) 1994-95 will be accomplished by a combination of State funds provided in FY 1994-95 State School Aid Act (Public Act 336 of 1993) and property taxes levied and collected by local school districts. The level of property taxes that local school districts may levy and collect is limited pursuant to the overall K-12 finance reform package.

Funding for K-12 school districts in FY 1994-95 through the State School Aid Act is summarized in Table 3 on page 6. The State School Aid Act is funded through a combination of restricted School Aid Fund revenues, Federal aid, a transfer from the Public School Employees Retirement System (PSERS) prefunded health reserve, surplus School Aid Fund revenue carried forward from FY 1993-94, and a General Fund/General Purpose (GF/GP) grant. Due to inconsistencies in the earmarking of new funds raised to finance schools in the school finance reform package, the amount of new revenues earmarked to the School Aid Fund was understated. Therefore, the GF/GP grant contained in the School Aid Act understates the amount of funds necessary to fully fund the bill by $568 million under the ballot proposal and $505 million under the statutory plan. It is anticipated that this shortfall will be covered by adjusting the GF/GP grant stated in Public Act 336 of 1993 by amending the earmarking of other taxes contained in the school finance package or by utilizing excess School Aid Fund reserves generated in FY 1993-94.

The combination of funding from the State School Aid Act and property taxes levied and collected by school districts makes up the total of K-12 school aid. Table 4 provides a summary of the total revenues that will be available for K-12 schools under the ballot and statutory plans. The total funding under both plans is $10.6 billion with local property taxes playing a more prominent role under the statutory plan than under the ballot plan.

The projected level of FY 1994-95 K-12 funding of $10.6 billion compares with FY 1993-94 funding of $10.2 billion. This represents an increase in funding of 4.0%. The FY 1993-94 total school funding level includes supplemental appropriations of $466 million that were contained in Public Act 336 of 1993, in addition to the $9.74 billion of appropriations originally approved by the Legislature.

The school finance reform proposal contains numerous tax changes both under the ballot and statutory proposals. In general the effective date of the tax increases under both proposals is May 1, 1994. This effective date of the tax increases leads to considerable revenue being generated in FY 1993-94 at the same time that the majority of additional State appropriations to schools do not begin until FY 1994-95.

Table 5 provides a summary of the FY 1993-94 State revenue impact of the school finance reform package. The ballot proposal would generate $1.48 billion of additional FY 1993-94 School Aid Fund revenue, while the statutory plan would yield $1.42 billion of FY 1993-94 School Aid Fund revenue. The excess FY 1993-94 School Aid Fund revenue is reduced by a $466 million supplemental appropriation to schools during FY 1993-94. The $466 million includes $300 million of transitional payments and $166 million of other supplemental items. The end result is that the State School Aid Fund will carry forward surplus revenues of $995 million under the ballot proposal and $928 million under the statutory proposal. These funds will be available to finance school expenditures in future years.

The existing level of FY 1993-94 GF/GP revenues also would be affected under the ballot and statutory proposals. Under the ballot proposal, the reduction in the rate of the State income tax from 4.6% to 4.4% would reduce FY 1993-94 GF/GP revenues by $117 million. This would be partially offset by $17 million of increased revenue resulting from the expansion of the use tax to include interstate phone calls. Under the statutory proposal, the increase in the income tax personal exemption would reduce FY 1993-94 GF/GP revenues by $107 million. This would be partially offset by $25 million of increased revenue from the interstate phone tax.

The combination of a variety of tax increases affecting both the School Aid Fund and GF/GP revenues coupled with the earmarking of revenues leads to an overall impact of the school finance reform proposal on the State GF/GP budget. Table 6 provides a summary of the FY 1994-95 GF/GP State budget impact of the school finance reform package. On an overall basis, the ballot proposal would result in a $591 million negative impact on the GF/GP budget. The statutory plan would result in a $350 million negative impact. The actual extent of adjustments that may have to be made to the Governor's FY 1994-95 budget recommendation depends on revisions in revenue estimates that will be made at the consensus revenue estimating conference to be held on January 14, 1994.

The final issue of importance concerning the overview of the school finance reform package involves the amount of revenues that are being increased to fund K-12 schools versus the revenues saved by taxpayers due to the enactment of Public Act 145 of 1993. This analysis attempts to show whether on an aggregate taxpayer level the overall school finance tax

package is a tax cut or tax increase for taxpayers. Table 7 provides this analysis for the ballot proposal while a similar analysis for the statutory plan is contained in Table 8.

Under the ballot proposal, total increased State and local taxes would be $473 million less than the revenues saved from P.A. 145 of 1993. Taking into account the projected impact of changes in Federal tax liabilities resulting from the ballot proposal leads to a net tax cut of $133 million. Under the statutory proposal, the plan would result in a $212 million State and local tax cut before Federal tax liabilities and a $91 million tax cut after Federal tax impacts are factored in. Therefore, both the ballot and statutory plans would result in net tax relief to taxpayers.

Tables 7 and 8 also provide a breakdown between the savings that would accrue to both individuals and business. Under the ballot proposal individuals would receive the larger tax reduction, while businesses would fare better under the statutory proposal.

Table 1

TAX REFORM COMPONENTS
SCHOOL FINANCE REFORM PACKAGE

Tax Change	Ballot	Statutory
Sales Tax Rate	From 4.0% to 6.0%	None
Use Tax Rate	From 4.0% to 6.0%	None
Sales & Use Tax Base Adjustments	Exempt Residential Utilities from 2 cent increase Tax Interstate Phone Calls(Exclude 800 Service)	Tax Interstate Phone Calls
Income Tax Rate	From 4.6% to 4.4%	From 4.6% to 6.0%
Income Tax Personal Exemption	None	From $2,100 to $3,000 per dependent
Income Tax Credit Adjustments	Increase Renter's Credit	Increase Renter's Credit
Single Business Tax Rate	None	From 2.35% to 2.75%
Real Estate Transfer Tax	Impose at 2.0% on all Property	Impose at 1.0% on all Property
State Homestead Property Tax	Levy 6 mills	None
State Nonhomestead Property Tax	Levy 6 mills	Levy 12 mills
Local Homestead Property Tax	None	Levy 12 mills
Local Nonhomestead Property Tax	Levy 18 mills	Levy 12 mills
Cigarette Tax Rate Increase	Increase from 25 cents to 75 cents per pack	Increase from 25 cents to 40 cents per pack
Tax on Other Tobacco Products	Tax at 16.0% of Wholesale Price	Tax at 16.0% of Wholesale Price
State Lottery Expansion	Institute Frequent-Draw Keno Game	None

Table 2

MAJOR TAXPAYER DIFFERENCES BETWEEN BALLOT AND STATUTORY SCHOOL FINANCE PROPOSALS

	Ballot	Statutory
Sales and Use Tax Rate	2 cents increase	---
Income Tax Rate	0.2% reduction	1.4% increase
Income Tax Personal Exemption	---	$900/dependent
Single Business Tax Rate	---	0.4% increase
Homestead Property Tax	6 mills	12 mills
Nonhomestead Property Tax	24 mills	24 mills
Real Estate Transfer Tax	2.0%	1.0%
Cigarette Tax	50 cents/pack increase	15 cents/pack increase

Table 3

FY 1994-95 STATE FINANCED K-12 SPENDING REVENUES AND EXPENDITURES (millions of dollars)

	Ballot	Statutory
School Aid Fund Revenues:		
Existing Sales Tax	$ 1,892	$ 1,884
Sales Tax Increase	1,489	---
Use Tax Increase	271	---
Interstate Phone Use Tax	20	---
Income Tax Increase	---	1,645
Income Tax Earmarking	813	592
Single Business Tax	---	335
Real Estate Transfer Tax	340	213
Homestead Property Tax	599	---
Nonhomestead Property Tax	463	899
Tobacco Tax	365	164
Liquor Excise Tax	21	21
Lottery	464	464
Keno-Lottery	35	---
PA 198 Industrial Facilities Tax	165	132
SUBTOTAL	$ 6,937	$ 6,349
Other Revenues:		
Federal Aid	92	92
PSERS Health Reserve	140	140
FY 1993-94 SAF Carryforward	300	300
General Fund/General Purpose Grant	438	387
School Aid Fund Adjustment[a]	568	505
TOTAL REVENUES	$ 8,475	$ 7,773
Expenditures:		
School Aid Fund Appropriations	$ 8,475	$ 7,773
BALANCE	$ 0	$ 0

[a] This shortfall results from different revenue earmarking assumptions in the School Aid Act than in the revenue bills.

Source: Senate Fiscal Agency estimates.

Table 4

FY 1994-95 K-12 TOTAL REVENUES
(millions of dollars)

	Ballot	Statutory
School Aid Fund:		
Existing Sales Tax	$ 1,892	$ 1,884
Sales Tax Increase	1,489	---
Use Tax Increase	271	---
Interstate Phone Use Tax	20	---
Income Tax Increase	---	1,645
Income Tax Earmarking	813	592
Single Business Tax	---	335
Real Estate Transfer Tax	340	213
Homestead Property Tax	599	---
Nonhomestead Property Tax	463	899
Tobacco Tax	365	164
Liquor Excise Tax	21	21
Lottery	464	464
Keno-Lottery	35	---
P.A. 198 Industrial Facilities Tax	165	132
Subtotal School Aid Fund	$ 6,937	$ 6,349
Other State Funds:		
General Fund/General Purpose Grant	438	387
School Aid Fund Adjustment[a]	568	505
FY 1993-94 SAF Carryforward	300	300
PSERS Health Reserve	140	140
Subtotal Other State Funds	$ 1,446	$ 1,332
Local Property Taxes:		
Homestead Property Tax	0	1,198
Nonhomestead Property Tax	1,389	899
Hold-Harmless Mills for High Spending Districts	223	223
Intermediate School District Millage Restoration	510	503
Subtotal Local Property Taxes	$ 2,122[b]	$ 2,823[b]
Federal Aid	92	92
Total K-12 School Revenues	**$10,597**	**$10,596**

[a] This shortfall results from different revenue earmarking assumptions in the School Aid Act than in the revenue bills.

[b] Does not include up to three mills for enrichment purposes that under the ballot proposal could be levied by local school districts with a vote of the people in each school district. If all districts levied the maximum extra millage, the revenue yield would be $525 million. Under the statutory proposal, enhancement mills would be available to ISDs and local districts at variable rates depending on SEV per pupil.

Source: Senate Fiscal Agency estimates.

Table 5

FY 1993-94 STATE REVENUE IMPACT
SCHOOL FINANCE REFORM PROPOSAL
(millions of dollars)

	Ballot	Statutory
School Aid Fund:		
Sales and Use Tax Increase	$ 780	$ ---
Exempt Residential Utilities Sales Tax Increase	(30)	---
Income Tax Increase	---	654
Single Business Tax Increase	---	132
Real Estate Transfer Tax	---	88
Tobacco Tax Increase	141	56
Interstate Phone Tax	8	---
State Homestead Property Tax	300	---
State Nonhomestead Property Tax	232	450
P.A. 198 Reinstatement	52	36
Total School Aid Fund Revenues	$1,483	$1,416
Expenditures:		
FY 1993-94 School Aid Supplemental	$ 166	$ 166
FY 1993-94 Transitional Payments	300	300
Utility Property Tax Reimbursement	22	22
Total Expenditures	$ 488	$ 488
School Aid Fund Balance	$ 995	$ 928
General Fund/General Purpose:		
Income Tax Decrease	(117)	---
Income Tax Exemption Increase	---	(107)
Interstate Phone Tax	17	25
Total GF/GP Revenues	$ (100)	$ (82)

Note: All tax increases are effective on May 1, 1994, with the exception of the Real Estate Transfer Tax under the ballot proposal which is effective on January 1, 1995. The imposition of State property taxes applies to calendar year 1994 with 50% of projected collections accruing to FY 1993-94.

Source: Senate Fiscal Agency estimates.

Table 6

FY 1994-95 STATE GF/GP BUDGET IMPACT
SCHOOL FINANCE REFORM
(millions of dollars)

	Ballot	Statutory
Circuit Breaker Savings	$ 694	$ 573
Existing GF/GP Grant	843	843
Cigarette Tax Loss	(41)	(10)
Personal Exemption Increase	---	(270)
Increase Renter's Credit	(40)	(40)
Income Tax Earmarking	(813)	(592)
Income Tax Reduction	(247)	---
GF/GP Grant to School Aid	(438)	(387)
School Aid Revenue Adjustment	(568)	(505)
GF/GP Sales Tax on Cigarettes	3	2
GF/GP Utility Property Tax	(24)	(24)
Interstate Phone	40	60
Total	$ (591)	$ (350)

Source: Senate Fiscal Agency estimates.

Table 7

SCHOOL FINANCE REFORM PROPOSAL – BALLOT PLAN
NET TAX IMPACT FY 1994-95
(millions of dollars)

	Total	Individuals	Business
TAX CUT UNDER P.A. 145 OF 1993			
Schools:			
K-12	$5,915	$3,987	$1,928
Intermediate School Districts (ISD)	502	338	164
Industrial & Commercial Facilities Tax	143	---	143
Subtotal	6,560	4,325	2,235
State Government (Utility Property Tax)	100	---	100
Local Governments (Freeze & Ad. Fee)	167	110	57
Local Governments (TIF)	150	---	150
Gross Property Tax Cut	6,977	4,435	2,542
Property Tax Credit Offset	(850)	(850)	---
Net Property Tax Cut	$6,127	$3,585	$2,542
% Distribution	---	58.5%	41.5%
NEW REVENUE UNDER BALLOT PLAN			
New State Revenues:			
Sales/Use Tax Increase - 2%	$1,847	$1,293	$554
No Sales Tax Increase on Residential Utilities	(70)	(70)	---
Income Tax Decrease - 4.6% to 4.4%	(247)	(247)	---
Real Estate Transfer Tax on All Property - 2%	340	238	102
Property Tax on All Property - 6 mills	1,062	701	361
Tobacco Tax Increase - 50 cents/pack	338	338	---
SBT Increase	---	---	---
Interstate Telephone Use Tax	60	36	24
Property Tax Credit on Reinstated Property Tax	(156)	(156)	---
Renters' Property Tax Credit Increase	(40)	(40)	---
Keno	35	35	---
Industrial & Commercial Facilities Tax Reinstated	165	---	165
Utility Property Tax	78	---	78
	$3,412	$2,128	$1,284
Local Property Taxes:			
ISD Property Tax Reinstated	$510	$337	$173
Property Tax on Nonhomesteads - 18 mills	1,389	333	1,056
Voted Hold Harmless Mills for Schools	223	147	76
Local Gov't Property Tax - No Assessment Lag	102	67	35
Other (Collection Fee)	18	12	6
	$2,242	$896	$1,346
Total New Taxes	$5,654	$3,024	$2,630
% Distribution	---	53.5%	46.5%
Net Change In Taxes	($473)	($561)	$ 88
ADDENDUM: SFA estimate of net impact after change in Federal income tax		**SFA Estimates**	
Est. Federal Income Tax Increase for Itemizers & Business	$340	$364	($23)
Net Tax Change After Federal Impact	($133)	($197)	$65

Source: Senate Fiscal Agency estimates.

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Table 8

SCHOOL FINANCE REFORM PROPOSAL – STATUTORY PLAN
NET TAX IMPACT FY 1994-95
(millions of dollars)

	Total	Individuals	Business
TAX CUT UNDER P.A. 145 of 1993			
Schools			
K-12	$5,915	$3,987	$1,928
Intermediate School Districts (ISD)	502	338	164
Industrial & Commercial Facilities Tax	143	---	143
Subtotal	6,560	4,325	2,235
State Government (Utility Property Tax)	100	---	100
Local Governments(Freeze & Ad. Fee)	167	110	57
Local Governments(TIF)	150	---	150
Gross Property Tax Cut	6,977	4,435	2,542
Property Tax Credit Offset	(850)	(850)	---
Net Property Tax Cut	$6,127	$3,585	$2,542
% Distribution	---	58.5%	41.5%
NEW REVENUE UNDER STATUTORY PLAN			
New State Revenues:			
Sales/Use Tax Increase	$ ---	$ ---	$ ---
No Sales Tax Increase on Residential Utilities	---	---	---
Income Tax Increase - 4.6% to 6.0%	1,727	1,727	---
Increase Personal Exemption - $2,100 to $3,000	(352)	(352)	---
Real Estate Transfer Tax on All Property - 1%	213	149	64
Property Tax on Nonhomesteads - 12 mills	926	222	704
Tobacco Tax Increase - 15 cents/pack	146	146	---
SBT Increase - 0.4%	335	---	335
Interstate Telephone Use Tax	60	24	36
Property Tax Credit on Reinstated Property Tax	(277)	(277)	---
Renters' Property Tax Credit Increase	(40)	(40)	---
Keno	---	---	---
Industrial & Commercial Facilities Tax Reinstated	132	---	132
Utility Property Tax	78	---	78
	$2,948	$1,599	$1,349
Local Property Taxes:			
ISD Property Tax Reinstated	$503	$332	$171
Property Tax on Homesteads - 12 mills	1,198	1,198	---
Property Tax on Nonhomesteads - 12 mills	926	222	704
Voted Hold Harmless Mills for Schools	223	147	76
Industrial & Commercial Facilities Tax Reinstated	---	---	---
Local Gov't Property Tax - No Assessment Lag	102	67	35
Other (Collection Fee)	15	10	5
	$2,967	$1,977	$990
Total New Taxes	$5,915	$3,576	$2,339
% Distribution	---	60.5%	39.5%
Net Change In Taxes	**($212)**	**($9)**	**($203)**
ADDENDUM: SFA estimate of net impact after change in Federal income tax		**SFA Estimates**	
Est. Federal Income Tax Increase for Itemizers & Business	$121	$68	$54
Net Tax Change After Federal Impact	($91)	$59	($149)

Source: Senate Fiscal Agency estimates.

II. SCHOOL FINANCE REFORM

The following is a discussion of the statutory and constitutional changes that would be made by the ballot proposal and the statutory proposal as they relate to school finance reform. As discussed above, in many cases the proposals pertain to the same taxes—such as the income tax, tobacco tax, and the State education property tax—but would have dissimilar results. In addition, both proposals would authorize intermediate and local school districts to levy property taxes, but take divergent approaches toward this revenue source. (See Table 9 on page 16 for a listing of school finance reform legislation.)

A. BALLOT PROPOSAL

State Revenues

Sales and Use Tax Changes. The sales and use taxes would be increased from 4% to 6%, if approved by the voters, effective May 1, 1994. Proceeds of the additional taxes would be dedicated to the State School Aid Fund. The use tax would be applied to interstate telephone communications; however, the 6% rate would not apply to 800 prefix services, international calls, private networks, or wide area telecommunications services. The additional 2% use tax rate would not be applied to residential use of electricity, natural gas, and heating fuels.

Income Tax Decrease. The income tax rate would be decreased by 0.2% from 4.6% to 4.4% effective May 1, 1994. Beginning October 1, 1994, 14.4% of gross income tax collections, before refunds, would be dedicated to the School Aid Fund.

Real Estate Transfer Tax. A State real estate transfer tax would be established at a rate of 2%. The tax would apply to the transfer of all real property. The tax would be effective January 1, 1995. The proceeds of the tax would be dedicated to the School Aid Fund.

State Education Tax. A State property tax of six mills would be imposed on all real and personal property currently subject to the general property tax. The tax would begin in 1994. The revenue would be earmarked to the School Aid Fund.

Renter's Credit Increase. The share of rent considered as property taxes paid would be increased from 17% to 20%, providing a larger property tax credit to renters.

Tobacco Tax Increase. Effective May 1, 1994, the current tax on cigarettes of 12.5 mills (25 cents per pack) would be repealed and a new tax of 37.5 mills (75 cents per pack) would be imposed. Of the per-pack proceeds, 63.4% would be credited to the School Aid Fund, 25.3% to the General Fund, 4% to the Health and Safety Fund, and 1.3% to local health departments; and 6% would be dedicated to improving State residents' health care. In addition, a tax of 16% of the wholesale price would be imposed on cigars, nonsmoking tobacco, and smokeless tobacco; all of the proceeds would be credited to the School Aid Fund.

Local Revenues under the Ballot Proposal

ISD Property Taxes. Intermediate school districts (ISDs) could levy property taxes for operating purposes, vocational-technical education, and special education up to the amount allocated or levied for that purpose in 1993.

School District Property Taxes. To be eligible for State school aid, a school board would have to levy not more than 18 mills for school operating purposes or the number of mills levied in 1993 for school operating purposes, whichever was less, on nonhomestead property.

Supplemental/Hold Harmless Property Taxes. A school district with an FY 1994-95 "foundation allowance" over $6,500 could levy, with voter approval, a supplemental property tax required for the district's combined State and local revenue per membership pupil for the school fiscal year ending in 1995 to equal the district's foundation allowance; these mills could be levied only on homestead property until the number of mills equaled 18, the same millage rate as the nonhomestead property tax for school operating purposes. Mills required over 18 would be levied uniformly on all property. (For an explanation of the foundation allowance, see "Public Act 336 of 1993: School Aid Act", below.) The growth in a district's supplemental property tax would be limited to the lesser of the general price increase from the previous calendar year or the percentage that would yield the same increase in the district's combined revenue from the preceding State fiscal year as the dollar increase in the foundation allowance from the preceding fiscal year.

School District Enhancement Property Taxes. For taxes levied in 1994 through 1996, a school district could levy up to three mills for operating purposes if approved by the voters after 1993. Beginning in 1997, with voter approval, ISDs could levy up to three mills for a regional enhancement property tax to enhance other State and local funding for local school districts operations.

School District Allocated Mills. A school district could not levy mills allocated under the Property Tax Limitation Act, other than mills allocated to the Detroit public school district for a public library commission.

Community College District. The board of a school district operating a community college could levy taxes for operation of the college at a maximum rate equivalent to the mills authorized under the School Code in 1993 for operating the college. With voter approval, the school board could renew the millage and/or levy additional millage for the college's operation.

Sinking Funds. If approved by the voters, school districts could continue to levy up to five mills for the purpose of creating a sinking fund to be used for the purchase of real estate for sites for, and the construction or repair as school buildings. An audit of a school district's sinking fund would have to be conducted annually.

Bonds. A school district could borrow money and issue bonds to defray all or part of the costs of purchasing, erecting, completing, or renovating school buildings or other school facilities.

Deficit Bonds. After January 1, 1994, a school district could not issue operating deficit bonds unless the deficit were created as a result of a tax tribunal order or a court order.

<u>Other Ballot Proposal Issues</u>

Assessment Limit. For 1995 and thereafter, annual assessment increases on each parcel of property (adjusted for additions and losses) would be limited to the lesser of 5% or the rate of inflation. When property was subsequently sold, its assessed value would revert to 50% of true cash value.

School Operating Tax Increases. The approval of three-quarters of the members elected to and serving in the Senate and House of Representatives would be required for a law that increased

the statutory limits, in effect on February 1, 1994, on the maximum amount of local property taxes that could be levied for school operating purposes.

Funding Guarantee. The State would have to guarantee that total State and local per pupil revenue for school operating purposes for each local school district (adjusted for consolidations, annexations, or other boundary changes) could not be less than a local district's 1994-95 total State and local per pupil school operating revenue. The guarantee would not apply in a year in which a local school district levied a millage rate for school operating purposes less than it levied in 1994 (unless the lower rate were due to a Headlee rollback).

Property Tax Allocation. Beginning in 1994, the number of mills that may be allocated by a county tax allocation board would have to be reduced by the number of mills allocated to a local school district, other than to a first class district for an existing public library commission, for school district operating purposes in 1993, and the board could not allocate mills to a local school district for school district operating purposes. The requirement that a board approve a minimum tax rate of four mills for school districts would be eliminated.

B. STATUTORY PROPOSAL

State Revenues

Income Tax Changes. The income tax rate would be increased by 1.4% from 4.6% to 6.0%, effective May 1, 1994; the personal exemption would be increased by $900, from $2,100 to $3,000. (The current exemption of $3,000 for senior citizens would increase to $3,900.) The revenue from the 1.4% increase would be dedicated to the State School Aid Fund. Further, 10.5% of income tax collections before refunds from the tax levied at a rate of 4.6% would be dedicated to the State School Aid Fund beginning October 1, 1994.

Single Business Tax. The single business tax rate would be increased by 0.4% from 2.35% to 2.75%, effective May 1, 1994. The revenue from the rate increase would be earmarked to the School Aid Fund.

Interstate Telephone Tax. The use tax base would be expanded to tax interstate telephone calls at the current 4% rate.

State Education Tax on Nonhomestead Property. A State property tax of 12 mills would be imposed on nonhomestead property beginning in 1994. The revenue would be earmarked to the School Aid Fund.

Real Estate Transfer Tax. A State real estate transfer tax would be established at a rate of 1%. The tax would apply to the transfer of all real property and would be effective on May 1, 1994. The proceeds of the tax would be dedicated to the School Aid Fund.

Renter's Credit Increase. As under the ballot proposal, the portion of rent considered as property tax for calculation of the property tax credit for renters would be increased from 17% to 20%.

Tobacco Tax Increase. Effective May 1, 1994, the tax on cigarettes would be increased from 12.5 mills (25 cents per pack) to 20 mills (40 cents per pack). Of the proceeds, 8.5 mills would be credited to the School Aid Fund, 9.5 mills to the General Fund, 1.5 to the Health and Safety Fund, and .5 to local health departments. In addition, a tax of 16% of the wholesale price would be imposed on cigars, nonsmoking tobacco, and smokeless tobacco; all of the proceeds would be credited to the School Aid Fund.

Local Revenues under the Statutory Proposal

School District Property Taxes. A school board, with voter approval or as allocated to the district under the Property Tax Limitation Act, would have to levy property taxes for school operating purposes at a rate not to exceed 12 mills.

Supplemental/Hold Harmless Property Taxes. A school district with an FY 1994-95 foundation allowance over $6,500 could levy, however, with voter approval, a supplemental property tax required for the district's combined State and local revenue per membership pupil for the school fiscal year ending in 1995 to equal the district's foundation allowance.

School District Enhancement Property Taxes. Beginning in 1994, with voter approval, ISDs could levy a regional enhancement property tax to enhance other State and local funding for local school district operations. For an ISD having the highest State equalized valuation per pupil (SEVpp) among all of the ISDs, the rate could not exceed two mills. For other ISDs, the rate could not exceed the number of mills equal to the potential revenue of two mills in the ISD with the highest SEVpp. (As a result, the ISD with the lowest SEVpp could levy up to approximately 7-3/4 mills.)

In addition, a school board could submit to the voters the question of levying an enhancement property tax. The rate could not exceed the maximum rate of the regional enhancement property tax allowed for the ISD in which the district was located, minus the number of mills of the regional tax levied by the ISD. If more than one school district in the same ISD levied an enhancement tax, the districts would have to share the revenue; a levying district would retain the excess of what was levied in any other district, however. (For example, if District A levied two mills and District B levied three mills, the districts would have to pool the revenue from two mills but District B could keep the revenue from its additional one mill.)

School District Property Tax Limitations. A school board could establish the district as a charter authority exempt from constitutional property tax limitations. The tax limitations then would be the limitations requiring voter approval for school district operating taxes.

Community College District. The board of a school district operating a community college could levy taxes for operation of the college at a maximum rate equivalent to the mills authorized under the School Code in 1993 for operating the college. With voter approval, the school board could renew the millage and/or levy additional millage for the college's operation.

Sinking Funds. If approved by the voters, school districts could continue to levy up to five mills for the purpose of creating a sinking fund to be used for the purchase of real estate for sites for, and the construction or repair as school buildings. An audit of a school district's sinking fund would have to be conducted annually.

Deficit Bonds. After January 1, 1994, a school district could not issue operating deficit bonds unless the deficit were created as a result of a tax tribunal order or a court order.

Summer Property Tax. A county in which one or more local units levied a summer property tax could impose a summer property tax levy in those local units where a summer property tax levy was being collected by the local tax collecting treasurer. The amount of summer tax that could be imposed by the county would be limited as follows: In 1995, one quarter of county taxes could be collected in the summer and in 1996, one-half of collections could be made in

the summer. For collections after 1996, all or one-half of t' e county property tax could be levied in the summer in those local units already collecting a summer tax.

Iron Ore Tax. The specific tax on low grade iron ore mining property would be decreased from .55% to .5% of the mine value per gross ton on property before production was established, and from 1.1% to 1.0% after production was established. The amount of the tax to be distributed to local school districts would have to be credited to the State School Aid Fund.

C. OTHER ISSUES

Tax Increment Financing. The tax increment financing statutes were changed so that, under the statutory proposal only, if as a result of the reduction in school operating taxes, the tax increment revenue of a tax increment finance authority (TIFA), downtown development authority, or local development financing authority were insufficient to repay eligible advances or eligible obligations, the Legislature would be required to appropriate the necessary funds to the authority. (Eligible advances or obligations would include those incurred either 1) before August 19, 1993, or 2) before December 31, 1994, to finance a project included in a plan approved before August 19, 1993, for which a contract for final design was entered into before March 1, 1994.) Tax increment revenue would include the 12-mill education tax levied on nonhomestead property, local school property taxes, ISD property taxes, and revenue from specific taxes paid in lieu of these school property taxes.
While the tax increment financing statutes have no provisions for reimbursing authorities using tax increment financing under the ballot plan, the School Aid Act provides $40 million in FY 1993-94 under either the ballot or statutory plan. In addition, the School Aid Act provides $22 million for tax increment financing reimbursements under the ballot plan and $12 million under the statutory plan in FY 1994-95.

Plant Rehabilitation and Industrial Facility (PA 198) Abatement. Under both the ballot and statutory proposals, there would be no change in the calculation of the industrial facilities tax for a replacement facility that had received a tax exemption certificate before 1994. The tax for a new facility that had received an exemption before 1994 would be based on one half of the mills levied in 1993 for school operating purposes, and one half of the mills levied for other purposes; these facilities, therefore, would not experience a tax cut. For exemptions effective after 1993, *under the ballot proposal*, there would be no change for replacement facilities, while new facilities would not receive an abatement on the six-mill State education tax unless the State Treasurer granted a 50% or 100% abatement on those mills. *Under the statutory proposal*, a replacement or new facility would receive no abatement for school operating mills, whether levied by the State or locally, or for nonschool mills exempted from abatement by the taxing unit.

Industrial Park/Commercial Facilities Tax. Under both proposals, the technology park facilities tax and the commercial facilities tax would be calculated by adding one half of the mills levied in a year by all taxing units, other than mills levied for school operating purposes or for the State education tax, plus one half of the mills levied for school operating purposes in 1993.

Frequent-Draw Keno. Though not technically part of either proposal, the revenue estimates under the ballot proposal assume that the Bureau of State Lottery will offer a new type of keno game with frequent drawings. The existing keno game has four drawings per week. Revenue from these games is credited to the School Aid Fund.

Table 9

SCHOOL FINANCE REFORM		
Bill	1993 Public Act	Issue
S.J.R. S		• Sales and use tax increase • Assessment limit • School operating tax increase • Funding guarantee
H.B. 4279	P.A. 312	• School Code: ISD & school district property taxes
H.B. 5009	P.A. 322	• Tax increment finance authorities
H.B. 5010	P.A. 323	• Downtown development authorities
H.B. 5097	P.A. 324	• Iron ore tax
H.B. 5102	P.A. 325	• Sales tax increase
H.B. 5103	P.A. 326	• Use tax increase • Interstate telephone tax
H.B. 5104	P.A. 327	• Tobacco tax
H.B. 5106	P.A. 328	• Income tax • Renter's credit
H.B. 5109	P.A. 329	• Single business tax increase
H.B. 5110	P.A. 330	• Real estate transfer tax
H.B. 5111	P.A. 331	• State education tax
H.B. 5112	P.A. 314	• Property tax allocation to school districts
H.B. 5115	P.A. 313	• Summer property taxes
H.B. 5116	P.A. 332	• Tax on railroad, telephone, and telegraph property
H.B. 5118	P.A. 333	• Local development finance authorities
H.B. 5120	P.A. 334	• Industrial facilities tax abatement
H.B. 5123	P.A. 336	• State School Aid Act
H.B. 5129	P.A. 338	• Technology park facilities tax
H.B. 5224	P.A. 340	• Commercial facilities tax

III. PUBLIC ACT 336: SCHOOL AID ACT

Following are the major changes to the School Aid Act in Public Act 336 of 1993 (enrolled House Bill 5123):

A. THE FOUNDATION GRANT

FY 1994-95 Base Foundation Grant

The Bursley funding formula will be eliminated and replaced with a base foundation grant of $5,000 per pupil. Eventually, each district will receive minimum per-pupil funding at the base foundation grant level.

FY 1994-95 Foundation Guarantee

Until districts receive at least the base foundation grant funding level, a district's foundation guarantee will be calculated as follows: A district with per-pupil funding of less than $4,200 in FY 1993-94 will increase automatically to $4,200 in FY 1994-95 or increase by $250 per pupil, whichever is greater. Increases to the FY 1993-94 level of funding for a district with FY 1993-94 base revenue between $4,200 and $6,500 will be the dollar amount generated by the following formula: $250 - [$90 x ((FY 1993-94 base-$4,200) ÷ $2,300)]. A district with base per-pupil revenue in FY 1993-94 above $6,500 will have a per-pupil revenue increase of a flat $160, which equates to a 2.5% increase on $6,500 and a smaller percentage increase on an FY 1993-94 base above $6,500.

FY 1994-95 State Payment

The FY 1994-95 State payment to districts with a foundation guarantee up to $6,500 per pupil will be the difference between the foundation guarantee and the local revenue per pupil raised by the maximum of 18 mills on nonhomesteads under the ballot plan or by 12 mills on all property under the statutory plan. The FY 1994-95 State payment to districts with a foundation guarantee over $6,500 per pupil will be the difference between $6,500 and the local revenue per pupil.

FY 1993-94 Base Calculation

To calculate a district's FY 1993-94 base from which all future payment calculations are made, in addition to including each district's 1993 local ad valorem school property included in the base, specific taxes received and retained by the district and included in the district's board-adopted budget as of October 1, 1993, are included in the calculation of the FY 1993-94 base up to a total of $85,000,000 statewide. Also, FY 1993-94 State payments under the formula and most current categoricals, including retirement and FICA, are rolled into the base foundation grant with the exception of special education, special education transportation, adult education, bilingual education, early childhood education, one-half of gifted and talented programs, compensatory education for districts under $6,500 per pupil in FY 1993-94, professional development, and math/science centers. A district may include fund equity included in the district's board-adopted budget as of October 1, 1993, in the calculation of its base up to a total of $20,000,000 statewide. (This cap means that a maximum of approximately 20 cents of every one dollar of fund equity spent in FY 1993-94 will be included in a district's base.)

A district having less revenue per pupil in FY 1993-94 than in FY 1992-93 will have its FY 1993-94 base determined as the average, or "blend", of the two years.

Eligibility for Local "Hold-Harmless" Millage

Districts eligible in FY 1994-95 for per-pupil revenue of more than $6,500 may levy a local "hold-harmless" millage to achieve a $160 increase in per-pupil revenue. Note: There are 48 districts that may be eligible to levy this millage. A district with fewer than 100 pupils or requiring less than .5 mill, however, may elect not to levy the mill and will receive payment from the State to replace that revenue.

Other local mills are described in the School Finance Reform section of this document.

Future Years

In the second year and subsequent years of the plan, the $5,000 base grant will change based on an index determined by the change in School Aid Fund revenue from the prior year and the change in the number of pupils from the prior year. Districts below the foundation grant level will increase at a faster rate than will districts above the foundation grant. Districts eligible to levy local mills will receive an increase per pupil of not more than the increase in the base grant and will be prohibited from exceeding twice the base grant; districts that already exceeded twice the base grant, however, will be limited to the FY 1994-95 ratio.

B. ADULT EDUCATION

In FY 1993-94, funding for adult education is $357,000,000 with $72,000,000 of that amount allotted for competitive grants allocated by the Governor's Workforce Commission and $285,000,000 for "traditional" adult education. Public Act 336 includes $185,000,000 in FY 1994-95 in a separate categorical for "traditional" adult education programs. A district will be limited to the same number of participants that it had in FY 1993-94, after adjusting for the change in hours, described below. It is estimated that payments under this section will be prorated by .85 to .90.

A full-time-equated (FTE) adult membership will be equal to 900 hours, rather than the current 480 hours. One FTE will be worth the foundation grant or $5,500, whichever is less, to the district. The 70-20-10-10 payment provisions will change to 90% for enrollment, 10% for attendance, and 10% for completion.

C. COMPENSATORY EDUCATION SUPPLEMENTAL FOR AT-RISK PUPILS

In FY 1994-95, the Compensatory Education categorical funding for at-risk pupils will increase from $23,520,000 in FY 1993-94 to $230,000,000. Each district with less than $6,500 revenue per pupil in FY 1994-95 will receive 11.5% of an FTE multiplied by the district's foundation allowance. The money will be spent on instructional programs for eligible pupils and may be used for tutoring those pupils. Up to $10 per pupil may be used to operate a district's school breakfast program.

D. EARLY CHILDHOOD/SCHOOL READINESS

Funding for early childhood/school readiness programs will increase from $27,564,700 to $42,564,700 and the per-child payment will increase from $2,500 to $3,000. It is the intent of the Legislature that the funding will increase by $15,000,000 per year until all pupils requiring these programs receive them.

E. PROFESSIONAL DEVELOPMENT

Funding for professional development of teachers will increase from $1,872,000 in FY 1993-94 to $10,000,000 in FY 1994-95. The money will be distributed as follows: $6,500,000 to districts on a per-pupil basis, with each district receiving the same amount per pupil; $1,500,000 to intermediate school districts (ISDs) on a per-pupil basis for pupils in the ISD, with each ISD receiving the same amount per pupil; and $2,000,000 to the Department of Education for statewide professional development initiatives.

F. INTERMEDIATE SCHOOL DISTRICTS (ISDs)

The ISD general formula will be retained at the FY 1993-94 funding level of $22,950,000, rather than increasing to $50,000,000 as proposed by the Governor. Also, Public Act 336 includes $4,400,000 for ISD categorical payments including media centers and dropout prevention programs. In addition, the Act continues State equalization of ISD-levied vocational education mills at $7,200,000. Under both the ballot and statutory plans, ISDs are allowed to retain their operating mills, special education mills, and vocational education mills; under the ballot plan only, these mills may be retained at current levels or less. The State will continue to pay a portion of ISD FICA and retirement obligations currently paid by the State; the portion paid by the State is greater under the statutory plan than under the ballot proposal because the ISDs will receive more local revenue under the ballot proposal due to the elimination of "captured" SEV. ISDs will receive 103% of the FY 1993-94 average gross membership allowance for each pupil in membership, rather than the average foundation grant.

G. OTHER RETAINED CATEGORICALS

Public Act 336 retains the following categoricals: bilingual education and child caring institutions at the FY 1993-94 funding level, math and science centers with an increase to fund their "master plan", the additional one-half membership for court-placed pupils in juvenile detention and child caring facilities only, and one-half of the cost of gifted and talented programs.

H. TRANSITIONAL PAYMENTS

There will be "transitional" payments of $300 million each in August and October 1994 to help districts with their cash flow. The payments will be disbursed on a per-pupil basis (approximately $189 per pupil). The two transitional payments will be deducted from the State's April, May, and June payments to districts to provide no net increase to school districts in their 1994-95 fiscal year. An additional transitional payment of $600,000,000 will be made by the State in August and September 1995 to be applied to the schools' FY 1995-96. This means that there will be a net cost in the State 1993-94 and 1994-95 fiscal years of $300 million each year. See the schedule for the effect of these payments on the State and school fiscal years (Table 10 on the following page).

I. REPLACEMENT OF TAX INCREMENT FINANCING AUTHORITY (TIFA) REVENUE

The State will make payments to TIFAs of up to $22,000,000 if the ballot plan passes and $12,000,000 under the statutory plan. These payments are a partial replacement of TIFA revenue lost under the ballot and statutory provisions. The State payments are intended to provide sufficient revenue to TIFAs to cover their debt entered into or planned prior to August 19, 1993.

Table 10

ACCELERATED STATE PAYMENTS TO SCHOOL DISTRICTS UNDER PUBLIC ACT 336 IMPACT ON STATE AND SCHOOL FISCAL YEARS					
State FY: Quarter	94:4	95:1	95:2	95:3	95:4
Cumulative Effect — State FY	+300 (end of State FY)	+300	+300	-300	+300 (end of State FY)
Accelerated Payment Schedule	July Aug. Sept. +300	Oct. Nov. Dec. +300	Jan. Feb. Mar.	Apr. May June -200 -200 -200	July Aug. Sept. +300 +300
School FY: Quarter	95:1	95:2	95:3	95:4	96:1
Cumulative Effect — School FY	+300	+600	+600	0 (end of school FY)	+600

J. GENERAL PROVISIONS

The following general provisions are included in the bill:

- The FY 1994-95 State payments will be calculated using the average of the current-year "Fourth Friday" pupil count and a new FY 1993-94 supplemental count in February 1994.
- A per-pupil payment will be made in FY 1994-95 to public school academies established in accordance with provisions added to the School Code.
- The required minimum number of hours in a school year will increase from 900 hours for 1994-95 to 990 for 1995-96 and 1996-97, 1,035 for 1997-98 and 1998-99, and 1,080 for 1999-2000 and beyond.
- There is an FY 1993-94 supplemental appropriation (see Table 11).

Table 11

FY 1993-94 SUPPLEMENTAL INCLUDED IN PUBLIC ACT 336	
Prepay Retirement Reconciliation	$ 97,470,500
Eliminate Recapture in FY 1993-94 of Special Ed., Adult Ed. and Base Closure Supplemental	20,000,000
Increase Extended School Year — Implementation Grants	4,000,000
Special Election Costs	5,000,000
TIFA Hold Harmless	40,000,000
Transitional Payments to Districts	300,000,000
Total FY 1993-94 Supplemental	**$466,470,500**

IV. EDUCATION REFORM

The K-12 education reform component of the school finance reform package contains a number of measures designed to improve the State's educational system. Among the recent changes to the School Code are those pertaining to core curricula, pupil performance standards, endorsed diplomas, hours of pupil instruction, and school improvement plans. In addition, this component of the package provides for public school academies, as well as school security measures. The following is a discussion of these and other issues as they were recently enacted. (See Table 12 for a listing of the education reform legislation.)

A. SCHOOL CODE: EDUCATION REFORM

Academic Core Curriculum. To be accredited, a school board must make available to all pupils a core academic curriculum in each of the curricular areas specified in the State Board-recommended model core academic curriculum, which must encompass academic and cognitive instruction only and not include attitudes, beliefs, or value systems that are not essential in the legal, economic, and social structure of society and to the personal and social responsibility of citizens of the society.

Required Core Curriculum. The State Board is required, by September 1, 1994, to develop and submit for public hearing proposed rules establishing a required core academic curriculum for all school districts, and by January 1, 1996, to submit the proposed rules to the Joint Committee on Administrative Rules. Beginning in 1997-98, a school board will have to provide the core academic curriculum.

Pupil Performance Standards. By December 31, 1995, the State Board with the assistance of the Academic Performance Standards Committee, will have to recommend pupil performance standards to measure achievement of the academic outcomes specified in the State Board model core academic curriculum, including standards for mathematics, science, and communication arts. By July 1, 1996, a school district will have to consider these standards as an essential basis for assessing subject matter competency of students and for promoting pupils to another level. Beginning July 1, 1997, a school board that wants its schools to be accredited will have to establish performance standards, which may vary from the State Board's standards.

Endorsed High School Diploma. A school district is required to award a State-endorsed high school diploma to an eligible graduate. For pupils scheduled to graduate in 1994, 1995, or 1996, the pupil must pass State or local proficiency tests, be eligible to take the general education development test, or meet certain objectives on the MEAP test. Beginning with pupils scheduled to graduate in 1997, if academic outcomes are achieved in the areas of communication skills, mathematics, science, and, beginning in 1999, social studies, the pupil's school district must award a State endorsement in each subject area in which the required proficiency has been demonstrated. A school district may award a high school diploma to a pupil who completes local district requirements, regardless of whether the pupil is eligible for any State endorsement. Beginning in 1995, upon payment of a reasonable fee, any person may take a State-endorsed diploma test.

School Year. If a school board does not want the district's State school aid payments withheld, it must ensure that the minimum number of pupil instruction days in a school year is 180 and that the minimum number of hours of pupil instruction in a school year will be 900 for the 1994-95 school year, 990 for the 1995-96 and 1996-97 school years, 1,035 for the 1997-98 and

1998-99 school years, and 1,080 for the 1999-2000 and succeeding school years. Beginning in the 1994-95 school year, it is the intent of the Legislature that each school board consider extending the number of instructional days in a school year by two days each year so that by the 2009-10 school year, the number of instructional days will be at least 210.

School Improvement Plans. A school board is required to adopt and implement, by September 1 each year, a three- to five-year school improvement plan, if the board wants all of the schools in the district to be accredited. Beginning in 1994, an intermediate school board, by September 1 each year, must adopt and implement a three- to five-year ISD school improvement plan and continuing school improvement process for the district. An improvement plan will have to include a plan for addressing classroom needs and improvements, assurance that pupils have access to all programs offered by the ISD, a plan for teacher professional development, ways to make available opportunities for on-the-job learning, coordination of services with other existing State and local human services agencies, long-range cost containment measures, and specific recommendations on consolidation or enhanced interdistrict cooperation. By April 1, 1994, the State Board of Education must revise its existing criteria for school improvement plans to ensure that plans include at least: identification of education and skills needed by graduates, a determination of whether the existing curriculum is providing these skills, and the availability of apprenticeships and internships combined with classroom instruction.

At-Risk Students. Beginning in 1994, a school district must provide special assistance to students who are eligible for Chapter I Federal funds (a Federal program for low income families) or who are at risk of falling seriously behind in learning or are in danger of being expelled or not advancing in grade level.

College/High School Credit. A State university and any community college in the State may offer and conduct at a school district's facilities, subject to space availability, rental, and instruction schedules, courses for which a pupil may receive both college and high school credit.

Instruction in Communicable Diseases. The teaching in public schools on modes by which dangerous communicable diseases are spread and the prevention of these diseases as well as instruction in sex education must include the teaching of abstinence from sex as a responsible method of preventing unwanted pregnancy, for restricting and preventing these diseases, and as a positive lifestyle for unmarried young people.

Multicultural Education. By the 1995-96 school year, a school district may implement a curriculum ensuring multicultural education in all grade levels, including studies relative to the culture and contributions of African-Americans, Native-Americans, and Asian-Americans.

Gender Equity Issues. Beginning in the 1994-95 school year, if a school board wants the district's schools to be accredited, the board must ensure that information on each school building used to prepare the school's annual educational report be disaggregated by gender, and that gender equity issues raised by this information be addressed as part of the planning, development, implementation, evaluation, and update of the school's improvement plan.

Site-Based Decision Making. A school district must ensure that decisions made at the school-building level are made using site-based decision-making that includes the participation of teachers, administrators, parents, pupils, and others in the school community.

Fourth, Seventh Grade Reading Levels. A pupil who does not score satisfactorily on the fourth or seventh grade MEAP reading test must be provided special assistance to enable the pupil to bring his or her reading skills to grade level within 12 months. (This requirement does not apply to special education pupils, pupils having a learning disability, and pupils with extenuating circumstances as determined by school officials.)

Course Credit. A school district is required to grant high school credit to a high school pupil who is not enrolled in a course but who has attained a grade of at least "C+" in a final exam or exhibited mastery through the basic assessment used in the course. Any high school student may take the final examination in any course in order to earn credit; credit must be based on a "pass" grade and may or may not be counted toward graduation.

Student Portfolio. A school district is required to provide and maintain a student portfolio until a pupil leaves high school.

Summary Accreditation. The Department of Education is required to develop and distribute standards for determining if a school is eligible for summary accreditation, in which a school does not have to undergo a full building-level evaluation. A school that does not meet the standards but is making progress toward them will be in interim status and subject to a building-level evaluation. If a school is neither accredited nor in interim status, it is unaccredited and subject to certain measures, including closure.

Michigan Information Network. By June 30, 1995, the Department of Management and Budget will have to prepare a State plan for the creation of a Michigan Information Network electronically linking each local school district, intermediate school district, community college, independent nonprofit college or university located in the State, and State public university, and each State, local, or regional library.

Sexual Harassment. By January 1, 1995, a school board will have to adopt and implement a written policy to prohibit and penalize sexual harassment by school district employees, board members, and pupils.

Professional Development. Funds appropriated by the Legislature to support professional development and education will have to be allocated as follows: 20% to the Department of Education, 15% to ISDs on an equal amount per pupil basis, and 65% to school districts on an equal per pupil basis. To receive funding, each school district and ISD will have to submit to the State Board an annual professional development plan.

Master Teacher. For the first three years of employment in classroom teaching, a teacher will have to be assigned to one or more master teachers, college professors, or retired master teachers who will act as a mentor. The teacher also will have to receive intensive professional development induction into teaching.

Teacher Preparation. Beginning July 1, 1995, before a person engages in student teaching, he or she or the college or university in which the individual is or has been enrolled will have to demonstrate to the satisfaction of the school or school district that the teacher preparation program requires high academic achievement, demonstration of successful group work with children, knowledge of research-based teaching, and working knowledge of modern technology and use of computers.

Teacher Certification, Skills Exam. The State Board is required to continue to issue State elementary or secondary continuing education certificates pursuant to administrative rule (R 390.1132(1)) for persons who completed the rule's requirements as of December 31, 1992, and who apply for a certificate by March 15, 1994. If the State Board has issued a certificate to a person under the Code's certification provisions, the Board must consider this person to have a State elementary or secondary continuing education certificate.

School Administrators. A person will not have to have a school administrator's certificate or endorsement to be employed as an administrator by a school district, public school academy, ISD, or nonpublic school. Beginning in the 1994-95 school year, a school district may not employ administrators unless they have completed, within five years, continuing education requirements as prescribed by State Board of Education rule.

Breakfast Program. A school district may decide not to operate a breakfast program under certain circumstances, although a school within the district may establish a program.

Fiscal Impact

Annual appropriations to the Department of Education and the State School Aid Act will cover most of the costs of the School Code education reform measures, including all costs associated with developing and implementing a State-mandated core curriculum. A few provisions, however, might present an additional cost to the State and to local school districts. Although the costs of these provisions cannot be determined at this time, it is important to point out these items of concern.

- The State Board of Education will be responsible for developing the State core curriculum. Most of the costs will be covered by existing appropriations to the Department of Education; however, there may be extra costs associated with the Department personnel who serve as staff to the State Board.

- Primary school districts will be allowed to operate a breakfast program. Reimbursement to these school districts for operating a breakfast program will be the responsibility of the Department of Education, which may result in more schools needing reimbursement than the appropriated funds will cover. This provision also may result in a cost savings to the Department because K-12 districts that did not have 20% of their lunches in the previous year offered for free or at a reduced price may opt out of the breakfast program.

- Professional Development costs will be covered by the funds appropriated in the School Aid Act for these purposes. The measure provides, however, for a one-year sabbatical to master teachers who aid in professional development. If schools must hire an additional teacher to replace the teacher on sabbatical, the local district will have to absorb that increased cost.

- Additional specialists may have to be hired to provide specialized assistance to fourth and seventh grade pupils to bring their reading skills to grade level. Also, special instruction and/or instructional aids may be needed.

- Longer pupil instruction hours and days might increase local operating costs if additional funds are not appropriated. Items such as utility bills and teacher salaries might increase.

B. PUBLIC SCHOOL ACADEMIES

As recently amended, the School Code provides for the organization and administration of a public school academy under the direction of a board of directors. An academy will be a public school under the State Constitution, and will be eligible to receive State Aid payments. An academy may not be organized by or have an affiliation with a church or religious organization. The governing board of a school district, ISD, community college, or State public university may act as an authorizing body for granting contracts to organize and operate a public school academy. A person or entity will have to apply to an authorizing body for a contract to organize and operate a public school academy. A person or entity that is not granted a contract by a school board may petition the board to place the question of granting a contract on the ballot.

An academy is prohibited from charging tuition or discriminating in pupil admissions policies or practices on the basis of intellectual or athletic ability, measures of achievement and aptitude, status as a handicapped person, or any other basis otherwise illegal if used by a school district. An academy may offer any grade up to grade 12, including kindergarten and early childhood education, and may operate an adult basic education, high school completion, or general education development testing program.

Persons who are not certificated to teach may do so in an academy offered by a State university or community college. Employees of a public school academy will be able to participate in the Public School Employees Retirement System. A person employed as a teacher in a public school academy will not be considered a teacher during that employment for purposes of continuing tenure under the teachers' tenure Act. If a teacher employed in a public school academy is on leave of absence from a school district, however, and is on continuing tenure in the school district at the time he or she begins the leave of absence, the teacher will retain continuing tenure in that school district during the period he or she is employed in the public school academy.

Fiscal Impact

Currently, there are 200,000 students in nonpublic schools. Estimates indicate that approximately 1%-5% of nonpublic school students would enroll in public school academies, thereby increasing the number of public school students eligible for foundation guarantees by 2,000 to 10,000. School districts could end up with too many teachers if replacement teachers were hired and teachers on leave then returned to the school where they were tenured.

C. SCHOOL SECURITY

A local school board may establish a local school security task force for the district to perform functions at the local level similar to those performed at the State level by the school security task force created under the proposed School Security Task Force Act. (House Bill 4675 would create the School Security Task Force Act to establish an 18-member school security task force within the Department of Education to review the problems of weapons in schools and other factors that threaten school security and to recommend administrative and legislative responses to provide students with a safe environment. The bill is before the House Appropriations Committee.)

A local task force must include representatives of parents, teachers, and other school employees, school administrators, law enforcement officials, pupils, and other members of the

community affected by weapons in schools. A school district may use school operating funds for the task force's activities. A local school district is not required to establish a task force. There is no liability for a school district that does not establish a task force.

The Department of State Police is required to establish and maintain a firearms safety program to education children about the dangerous nature and safe handling of firearms. The Department must make the program available to local school districts. The Department also is required to produce or arrange for the production of public service announcements to educate the public about weapon free school zones and about the need to keep firearms and other weapons securely stored so they are not accessible to children, and to operate or use firearms or other weapons in a safe and lawful manner.

Fiscal Impact

A school district may use school operating funds for task force activities; however, schools will have to use existing funds as no additional money has been appropriated for these activities.

Table 12

EDUCATION REFORM		
Bill	1993 Public Act	Issue
S.B. 896[a]		Public school academies
H.B. 4672	P.A. 320	School security task force
H.B. 4674	P.A. 321	Firearms safety program
H.B. 5121	P.A. 335	School Code: Education reform
H.B. 5190	P.A. 339	School improvement plans
H.B. 4366	P.A. 318	Public school academy teacher retirement
H.B. 5125	P.A. 337	Public school academy teacher tenure

[a] Not signed into law as of the publication of this analysis.